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Subject: Accountants' liability insurance

American Institute of Accountants. Committee on Accountants' Liability and Liability Insurance

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American Institute of Accountants

INCORPORATED UNDER THE LAWS OF THE DISTRICT OF COLUMBIA

THE NATIONAL ORGANIZATION OF CERTIFIED PUBLIC ACCOUNTANTS

270 MADISON AVENUE, NEW YORK 16, N. Y.

January 10, 1950

SUBJECT: ACCOUNTANTS' LIABILITY INSURANCE

To Public Accounting Practitioners and Firms represented
in the American Institute of Accountants:

The Institute's Committee on Accountants' Liability and Liability Insurance has three main objectives: (1) to give continuous consideration to the coverage afforded by accountants' liability policies and to endeavor to have coverage extended to take care of any situations which should be, but which are not, covered by policies being written; (2) to minimize claims made against accountants; and (3) to reduce accountants' liability insurance costs.

The companies writing most of the accountants' liability policies are American Surety Company, Indemnity Insurance Company of North America, and Lloyd's, London. At the present time the coverage afforded by policies written by these three companies appears to be practically identical and adequate. Among other matters given consideration by the Committee has been the possibility of group policies which might be written at lower cost but with the same coverage as is now afforded by policies currently written. While the Committee has been encouraged by the interest taken on the part of companies writing accountants' liability policies, there seems to be no present indication that group policies will be offered to accountants. However, the Committee has been informed that American Surety Company and Indemnity Insurance Company of North America are now filing reduced rates ranging from 9.1% reduction in premium cost in the case of smaller policies to 5.6% reduction in the case of larger policies.

The Committee is very pleased to know that the loss experience of American Surety Company and Indemnity Insurance Company of North America has been such that the companies are able to make the foregoing reductions in rates. The Committee urges all members of the Institute who do not carry accountants' liability insurance, but who have been considering taking out such policy, to do so. The cost of each accountants' liability insurance policy will be influenced by the premium volume which, it is hoped, will be increased as a result of the foregoing rate reductions. The total cost of accountants' liability insurance depends, in the long run, upon the claims paid by the insurance companies.

From time to time the Committee has been asked to recommend the amount of accountants' liability insurance which should be carried by the inquirer's firm. The Committee is unable to make any recommendation. Adequate coverage would be in the amount of the maximum risk and the cost of such a policy, if it could be secured, would not only be prohibitive but would exceed all reasonable expectation of benefit or safeguard therefrom. The Committee has been advised by American Surety Company and Indemnity Insurance Company of North America that the average amounts carried by firms of various sizes are as follows:

<u>Number on Staff</u>	<u>Average Amounts Carried</u>
1 - 5	\$ 26,000
6 - 10	42,000
11 - 25	56,000
26 - 50	95,000

The two companies have stated to the Committee that they believe most policyholders would be warranted in carrying larger amounts which, they point out, could be carried with a relatively small increase in the annual premium. Amounts are not given for firms having more than fifty on their staff because there are such wide variations in practice with consequent variations in amounts of possible claims.

COMMITTEE ON ACCOUNTANTS' LIABILITY
AND LIABILITY INSURANCE

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